

Mr. Francis M. Feltham, President
Fane Management, Inc.
1200 Talisman Drive
North Augusta, South Carolina 29841

Re: AC# 3-AMM-J7 – Feltham Management Company d/b/a Anne Maria Nursing Home

Dear Mr. Feltham:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**FELTHAM MANAGEMENT COMPANY
D/B/A ANNE MARIA NURSING HOME
NORTH AUGUSTA, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-AMM-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 24, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Feltham Management Company d/b/a Anne Maria Nursing Home, for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Feltham Management Company d/b/a Anne Maria Nursing Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Feltham Management Company d/b/a Anne Maria Nursing Home dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
November 24, 1998

The South Carolina Department of Health and Human Services has not received formal approval from the United States Health Care Financing Administration (HCFA) of Attachment 4.19D of the South Carolina State Plan under Title XIX (Medicaid) for the contract periods beginning October 1, 1998, as required by regulations of the United States Department of Health and Human Services (HHS). The effects of any adjustments that may be necessary if the State Plan, as submitted, is modified to receive the approval of HCFA cannot presently be determined.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

ANNE MARIA NURSING HOME
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-AMM-J7

	<u>10/01/98- 11/30/98</u>	<u>Beginning 12/01/98</u>
Interim reimbursement rate (1)	\$89.63	\$90.38
Adjusted reimbursement rate	<u>87.33</u>	<u>88.08</u>
Decrease in reimbursement rate	\$ <u>2.30</u>	\$ <u>2.30</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated October 19, 1998 and Department of Health and Human Services Computation of Reimbursement Rate dated November 12, 1998

ANNE MARIA NURSING HOME
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-AMM-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.70	\$45.26	
Dietary		8.36	9.44	
Laundry/Housekeeping/Maint.		<u>5.34</u>	<u>7.70</u>	
Subtotal	\$ <u>4.37</u>	54.40	62.40	\$54.40
Administration & Med. Rec.	<u>.71</u>	<u>9.67</u>	<u>10.38</u>	<u>9.67</u>
Subtotal		64.07	\$ <u>72.78</u>	64.07
<u>Costs Not Subject to Standards:</u>				
Utilities		2.27		2.27
Special Services		2.03		2.03
Medical Supplies & Oxy.		5.00		5.00
Taxes and Insurance		1.87		1.87
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>75.24</u>		75.24
Inflation Factor (3.60%)				2.71
Cost of Capital				7.38
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.71
Cost Incentive				4.37
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.33)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$87.33</u>

ANNE MARIA NURSING HOME
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning December 1, 1998
AC# 3-AMM-J7

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Cost of Capital				7.38
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.71
Cost Incentive				4.37
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.33)
Minimum Wage & CNA Add-Ons				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.08</u>

ANNE MARIA NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,973,457	\$ -	\$ 6,179 (6) 344 (6) 52,679 (7)	\$1,914,255
Dietary	394,030	-	717 (6)	393,313
Laundry	58,969	-	-	58,969
Housekeeping	107,629	693 (8)	692 (9)	107,630
Maintenance	84,425	529 (8)	110 (6) 527 (9)	84,317
Administration & Medical Records	493,603	3,369 (8)	21,817 (2) 15,094 (4) 859 (6) 81 (6) 4,268 (9)	454,853
Utilities	106,800	667 (8)	668 (9)	106,799
Special Services	95,285	73 (7)	-	95,358
Medical Supplies & Oxygen	235,461	-	83 (6) 3 (7)	235,375
Taxes & Insurance	101,740	636 (8)	14,010 (5) 558 (9)	87,808
Legal Fees	-	-	-	-

ANNE MARIA NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	343,804	1,014 (8) 14,188 (10)	794 (1) 671 (3) 9,422 (4) 958 (9)	347,161
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	3,995,203	21,169	130,534	3,885,838
Ancillary	160,015	-	-	160,015
Non-Allowable	1,914,761	794 (1) 21,817 (2) 671 (3) 24,516 (4) 14,010 (5) 8,373 (6) 52,609 (7) 7,671 (9)	6,908 (8) 14,188 (10)	2,024,126
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$6,069,979</u>	<u>\$151,630</u>	<u>\$151,630</u>	<u>\$6,069,979</u>
TOTAL PATIENT DAYS	<u>47,032</u>	<u>-</u>	<u>-</u>	<u>47,032</u>
TOTAL BEDS	<u>132</u>			

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 50,916	
	Other Equity	2,699	
	Nonallowable	794	
	Accumulated Depreciation		\$ 53,615
	Cost of Capital		794
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	21,817	
	Administration		21,817
	To disallow unnecessary working capital interest HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
3	Other Equity	2,393	
	Nonallowable	671	
	Loan Cost		2,393
	Cost of Capital		671
	To adjust loan cost and related amortization to allowable HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
4	Nonallowable	24,516	
	Administration		15,094
	Cost of Capital		9,422
	To adjust loss on early extinguishment of debt to allowable HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
5	Nonallowable	14,010	
	Taxes and Insurance		14,010
	To disallow mortgage insurance applicable to nonallowable borrowing HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	8,373	
	Nursing		6,179
	Restorative		344
	Dietary		717
	Maintenance		110
	Administration		859
	Medical Records		81
	Medical Supplies		83
	To adjust payroll taxes and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Special Services	73	
	Nonallowable	52,609	
	Nursing		52,679
	Medical Supplies		3
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Housekeeping	693	
	Maintenance	529	
	Administration	3,369	
	Utilities	667	
	Taxes and Insurance	636	
	Cost of Capital	1,014	
	Nonallowable		6,908
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	7,671	
	Housekeeping		692
	Maintenance		527
	Administration		4,268
	Utilities		668
	Taxes and Insurance		558
	Cost of Capital		958
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
10	Cost of Capital	14,188	
	Nonallowable		14,188
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$207,638</u>	<u>\$207,638</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

ANNE MARIA NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>121</u>	<u>11</u>	
Deemed Asset Value	4,122,349	374,759	
Improvements Since 1981	715,032	53,199	
Accumulated Depreciation at 9/30/97	<u>(1,429,715)</u>	<u>(81,345)</u>	
Deemed Depreciated Value	3,407,666	346,613	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	228,314	23,223	
Return Applicable to Non-Reimbursable Cost Centers	(4,506)	(257)	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>935</u>	<u>48</u>	
Allowable Annual Return	224,743	23,014	
Depreciation Expense	88,907	17,415	
Amortization Expense	5,244	476	
Capital Related Income Offsets	(9,003)	(818)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,582)</u>	<u>(235)</u>	<u>Total</u>
Allowable Cost of Capital Expense	307,309	39,852	\$347,161
Total Patient Days (Actual)	<u>43,113</u>	<u>3,919</u>	<u>47,032</u>
Cost of Capital Per Diem	\$ <u>7.13</u>	\$ <u>10.17</u>	\$ <u>7.38</u>

ANNE MARIA NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-AMM-J7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$3.21	\$N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>	<u>\$10.17</u>
Reimbursable Cost of Capital Per Diem	* \$7.45	
Cost of Capital Per Diem	<u>7.38</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	
*(43,113 x \$7.20 + \$39,852) ÷ 47,032		